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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000862

SIPDIS

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TAGS: [ECON](#) [EFIN](#) [EPET](#) [ETRD](#) [PGOV](#) [IR](#) [SY](#)
SUBJECT: BAILING OUT THE SHAM: SARG CONTRACT RESCUES
SYRIAN-IRANIAN CAR VENTURE

REF: DAMASCUS 735

Classified By: Charge d'Affaires Maura Connelly for reasons 1.4(b,d)

Summary

¶1. (C) A reputable Syrian website reported that the SARG will supply Syrian public sector entities with "Sham"-model automobiles. The "Sham" (colloquial Arabic for Syria) is a Peugeot-based sedan produced by a joint Syrian-Iranian assembly plant (SIAMCO) in rural Damascus that opened in ¶2007. By mid-summer 2008, sales of the relatively expensive Sham averaged just 20 percent of the 240 cars/week production output. The SARG exempted SIAMCO from paying the bid bond and performance bond normally required by the Public Establishment for Foreign Trade in order to expedite the deal, which is designed to shore up the ailing joint venture -- Iran's most visible investment in Syria. End summary.

The Sham: Symbol of Iranian-Syrian Economic Ties

¶2. (C) According to the website "Syria Steps," the SARG is purchasing Sham-model automobiles for use by Syrian public sector entities. The "Sham" car is produced by SIAMCO, the highest profile Iranian investment in Syria (reftel). Located just outside of Damascus in Adra, the SIAMCO plant is a USD 60 million joint venture between Iranian Khodro, the SARG General Organization for Engineering Industries, and the private Syrian al-Sultan Group. SIAMCO offers the Sham with either 1600cc or 1800cc Peugeot engines and transmissions for about USD 12,200 or USD 13,600, respectively.

Consumers Not Taken by the Sham

¶3. (C) The SIAMCO plant opened in the midst of a three-year car "boom" in Syria, as significantly reduced tariffs and registration fees made private automobile ownership possible for the Syrian middle class. Several prominent business families moved quickly to capitalize on the demand for private transportation, purchasing agency licenses and opening scores of car dealerships in the industrial suburb of Harasta. By the time the first Sham rolled off the SIAMCO assembly line in 2007, savvy consumers had already made the Korean brands Hyundai and KIA the most popular cars in Syria. As of June 2008, Sham sales averaged just 50 of 240 cars

produced each week, with most of those becoming taxis. Competing against high quality, high value Asian imports, the Sham is hindered by its relatively high price, poor after-market service, and factory monopoly on spare parts.

SARG to the Rescue

¶4. (C) Shortly after the Sham's dismal sales statistics were released, the Syrian Ministry of Economy announced its approval to export the car to foreign markets. At the time, bemused industry observers wondered where outside of Syria there might be a market for a car called the "Sham." The joking grew louder when the SARG announced that its political ally Qatar had agreed to license a SIAMCO dealership in Doha, as Syrians tried to imagine Qatari sheikhs trading in their BMWs for a Sham.

¶5. (C) The SARG's latest attempt to salvage SIAMCO by supplying Shams to the public sector offers a more immediate remedy. To expedite the deal, the SARG exempted SIAMCO from paying the bid bond and performance bond normally required by the Public Establishment for Foreign Trade. Below the top tier of government ministers and general officers (who ride in Audi A8s), the middle-managers in Syria's bloated bureaucracy largely drive a fleet of 1980s-vintage black Mercedes sedans (civilian office directors and field grade army officers) and ubiquitous white Peugeot 404 station wagons (mukhabaraat). With Syria's declining oil revenues, the increasing cost of maintaining and fueling these antiques

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presents an unwelcome burden to a Finance Ministry attempting to control government spending. SARG investment in the new, more fuel efficient Sham cars may ultimately save costs over the long term while keeping the flagship example of Iranian investment in Syria alive a little longer .

Comment

¶6. (C) The story of the Sham car is reflective of the greater Syrian-Iranian economic relationship. As with other Iranian "investment" projects in Syria, the SARG is footing the bill for an Iranian product that could not compete in the open market. The Sham is also indicative of the public sector's declining prestige in Syrian society. In the era of Hafez al-Asad, when private transportation was a luxury only the country's elites could afford, government cars were considered prized perquisites. By comparison, contemporary SARG bureaucrats, army officers and Baath Party officials will be driving a car that most middle class Syrians wouldn't want to own.

CONNELLY